



MINUTES OF THE MEETING
OF THE INVESTMENT COMMITTEE OF THE BOARD OF DIRECTORS OF THE
ARIZONA PROPERTY AND CASUALTY INSURANCE GUARANTY FUND
APRIL 27, 2021

Pursuant to a Public Notice dated April 22, 2021 a meeting of the Investment Committee of the Board of Directors of the Arizona Property and Casualty Insurance Guaranty Fund (APCIGF) was convened on April 27, 2021 at 1:00 p.m. The meeting was held in a virtual format via Google Meet.

A quorum was present and the meeting was called to order at 1:05 p.m.

Present via videoconference were the following members of the Investment Committee:

Paul Matson, CFA, FCSI	Chair
William P. Melchionni, III	Member
Noel Cole Young, Esq.	Member

Also present at the meeting were:

Thomas M. O'Malley, CFA	Wells Fargo Asset Management
Jonathan Buenaventura	Wells Fargo Asset Management
Marie Souza	APCIGF Controller
Lori D. Nestor	APCIGF Executive Director

The following matters were discussed, considered and decided at the meeting:

ITEM #1. ANNOUNCEMENT CONCERNING ANTI-TRUST COMPLIANCE POLICY AND CONFLICTS OF INTEREST.

Executive Director Nestor announced the meeting would be conducted in accordance with the Anti-Trust Compliance Policy adopted by the Board of Directors, and in compliance with Arizona law (A.R.S. §§ 38-501 - 38-511) concerning the disclosure of conflicts of interest with regard to any matter before the Committee for consideration.

ITEM #2. APCIGF INVESTMENT PORTFOLIOS

Committee Chairman Paul Matson recognized Tom O'Malley, Senior Vice President with Wells Fargo Asset Management, for a review of investment portfolio performance. Mr. O'Malley indicated that the non-workers' compensation portfolio, with a March 31, 2021 value of approximately \$36 million, experienced a little upward pressure in interest rates with total return of .02% YTD. He indicated that the benchmark was at .04%, and that the benchmark is for a 6 month, average maturity Treasury bill index. Mr. O'Malley indicated that this portfolio is invested at 65% in treasury, 35% in agency. He mentioned that 2020 performance had been 1.11% vs index @ 1.05%.

The Chair then opened discussion regarding the impact of the statutes referenced in Agenda item #3 on the investment parameters for APCIGF portfolios. Discussion ensued regarding A.R.S. 20-677, which applies specifically to APCIGF, its inclusion of other statutes by reference, and the applicability of the investment restrictions therein to APCIGF. Such restrictions appear to be the same as those placed upon the deposits of insurers and appear to include the ability to invest in municipalities as well. The Chair concluded with a summary of the performance of both portfolios as demonstrating a low yield curve that is somewhat flat for the relevant terms. His understanding was that returns, without taking credit risks, are currently extremely low, and credit spreads very tight. The representatives from Wells Fargo agreed with his summary, and further advised that yields in general were fairly compressed through the 2-3 year maturity range.

ITEMS #3 & #4. APCIGF INVESTMENT STATUTES and APCIGF INVESTMENT POLICIES

The Chair opened both agenda items 3 and 4 simultaneously, summarizing that both investment policy statements indicate that investment options consist of US Government investments, US Government guaranteed investments, land banks, credit banks, certain cooperatives, Arizona level debt, and CDs as mentioned in the applicable statutes. Both investment policies limit investments to a maturity of 4 years or less, with an average duration less than or equal to 1 year for the non-workers' compensation portfolio, and an average duration of 2 years or less for the workers' compensation portfolio. Mr. Buenaventura then pointed out that A.R.S. 20-538 seems to allow for investment in general obligations of municipalities outside of Arizona as well, and the Chair asked Exec Dir Nestor to engage the Arizona Assistant Attorney General for clarification of all applicable statutes outlining eligible investment assets.

As for the Investment Policy language, the Chair indicated that the APCIGF Investment Committee has not historically met quarterly and suggested that it be recommended to the APCIGF Board that the language of both policies be changed to reflect an annual meeting of the Committee, allowing for more frequent meetings as requested by the Investment Committee Chair, an Investment Committee member, or the APCIGF Board Chair. Upon a motion made by Director Melchionni and duly seconded by Director Young, said recommendation passed unanimously.

ITEM #5. ACTUARIAL EVALUATION OF CASE RESERVES FOR WORKERS COMPENSATION CLAIMS.

Chairman Matson then recognized Executive Director Nestor, who explained that the Roll Forward actuarial study done by Ins Ris was conducted to determine APCIGF's estimated workers' compensation liabilities as of December 31, 2019, primarily to support the conversion of the APCIGF

basis of accounting from Modified Cash to Accrual. The Roll Forward study estimated \$122 million in workers' compensation liabilities as of that date, inclusive of Incurred But Not Reported (IBNR) claims. In response to the Chair's request for clarification, Ms. Nestor reported that a recent distribution from Escrow Funds had resulted in the addition of \$14.5 million to the nearly \$174 million balance indicated in the Workers' Compensation investment portfolio, and that additional distributions had the potential to yield an additional \$14.5 million. Because such actuarial studies are expensive and APCIGF liabilities remain static absent additional insolvencies, Director Young recommended that such studies be done every 3 years and/or on an as-needed basis when additional insolvencies occur. Director Melchionni agreed, and asked that a written procedure be recorded regarding the interval for such studies. Ms. Nestor indicated that the new, accrual based accounting system does require the estimation of liabilities on a periodic basis, and the Chair therefore requested that advice be sought from the contractor performing the accounting conversion before that interval be determined.

A discussion then ensued regarding the nature of the current cash flow for Workers' Compensation claims. Executive Director Nestor advised that the cash flow has remained steady for quite some time, and that despite ongoing review for settlement potential, settlement of claims remains challenging. Director Young explained that workers' compensation claims are long tailed in nature as they entail lifetime benefits in Arizona with unlimited reopening. He confirmed that the money in each portfolio may only be used for the account (line of business) for which it was intended, and that no inter-account borrowing may take place. Ms. Nestor explained that the statutes do provide for refunding the money to member insurers, but that the mechanism allows for return based on amounts paid in assessments and consideration for amounts taken as tax offsets.

Mr. Buenaventura expressed his understanding that the Workers' Compensation portfolio has a longer maturity duration because the liability analysis seemed to allow for it, and advised that going a

bit beyond the 2 year maximum might provide an opportunity for higher yield. Director Young suggested that portfolio might be able to do so, perhaps out to the 3-5 year range, due to the longevity of the Workers' Compensation claims, but indicated that to be an APCIGF Board decision. The Chair then asked Mr. Buenaventura to review the current policy, portfolio structure, and statutory clarifications and provide the investment committee with their recommendations for potential changes to both the portfolios and the investment policy statements.

ITEM #6. CHANGE OF OWNERSHIP FOR WELLS FARGO ASSET MANAGEMENT AND REQUEST FOR WRITTEN CONSENT TO SAME.

The Chair again recognized Executive Director Nestor, who indicated that this agenda item was intended to provide awareness to the Investment Committee that a change in the ownership of the APCIGF investment manager – Wells Fargo Asset Management - was occurring. She indicated that Wells Fargo Asset Management has been sold and that voluntary consent for the assignment had been requested. Director Young confirmed with Mr. O'Malley and Mr. Buenaventura that they would be employees of the new ownership group. Ms. Nestor advised that she would determine whether APCIGF Board action was needed for the voluntary consent.

In conclusion, the Chair summarized the motion taken and requests made as follows:

1. A recommendation be made to the APCIGF Board to change the Investment Committee meeting frequency stated in the investment policies to annual, or more frequently as requested by the Investment Committee Chair, an Investment Committee member, or the APCIGF Board Chair.
2. Clarification be requested from the Arizona Assistant Attorney General regarding what instruments the statutes governing APCIGF investments allow.

3. Expert advice be obtained regarding the frequency of actuarial studies of APCIGF liabilities.
4. Recommendations from Wells Fargo on recommended portfolio changes and investment policy changes.
5. A follow up meeting of the APCIGF Investment Committee to consider the results of all and any recommendations.

ITEM #7. CALL TO THE PUBLIC.

A call was made to the Public, to which there was no response.

There being no further business to come before the Committee, without objection the meeting was adjourned at 1:48 p.m.

Dated this 27th day of April, 2021.

Respectfully submitted,

Lori Nestor

Fund Executive Director

Approved:

Paul Matson

Paul Matson (Apr 30, 2021 13:05 PDT)

Chair of the Investment Committee